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BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai – 400 001

National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex, Bandra,
Mumbai - 400 051

Scrip Code : 543532

Trading symbol : ETHOSLTD

ISIN : INE04TZ01018

Subject : Regulation 30 of the SEBI (LODR) Regulations, 2015 – Transcript of conference call

Dear Sir/Ma'am

Greetings from Ethos.

This is in furtherance to our letter dated May 12, 2023 intimating the schedule of the conference call for today i.e. Monday, May 15, 2023 at 11.00 a.m.

In this regard, we are giving hereinbelow the transcript of the aforesaid conference call, held inter alia to discuss operational and financial performance of the Company for the quarter and financial year ended on March 31, 2023, pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015. The same is also available on the website of the Company www.ethoswatches.com

We would request you to please take the same in your records and oblige.

Thanking you

Yours truly
For **Ethos Limited**



Anil Kumar
Company Secretary & Compliance Officer
Membership no. F8023

Encl.: as above

— **ETHOS LIMITED** —

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“Ethos Limited
Q4 FY '23 Earnings Conference Call”
May 15, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchanges — BSE Limited and National Stock Exchange of India Limited and the Company website on 15th May 2023 will prevail

**MANAGEMENT: MR. YASHOVARDHAN SABOO – MANAGING DIRECTOR
– ETHOS LIMITED
MR. PRANAV SABOO – CHIEF EXECUTIVE OFFICER –
ETHOS LIMITED
MR. RITESH AGRAWAL – CHIEF FINANCIAL OFFICER –
ETHOS LIMITED
SGA – INVESTOR RELATIONS ADVISOR**

Moderator: Ladies and Gentlemen, good day and welcome to the Q4 FY '23 Earnings Conference Call of Ethos Limited. Please note, this conference call may contain forward looking statements about the company, which are based on the belief, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involved risk and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions, after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Yashovardhan Saboo, Managing Director, Ethos Limited. Thank you and over to you sir.

Yashovardhan Saboo: Good morning everyone and thank you for joining us, on the Ethos Limited Q4 FY '23 earnings conference call. I hope everyone had a chance to view financial results and investor presentation, recently posted on the company's website and stock exchanges. I am accompanied today by our CEO Mr. Pranav Saboo and our CFO Mr. Ritesh Agrawal and also SGA, our investor relations advisors on this call.

I am extremely pleased to share with you that, our current performance has reiterated our team's belief in the luxury watch opportunity in India. We strongly believe this is the beginning of a period of sustained growth. Our performance in Q4 and FY '23 has further evidenced Ethos's dominance in India's premium and luxury watch segments, which, have enormous growth potential. Our omni-channel approach to serving customers and leveraging the offering of Swiss brands, in a strategic way, will continue to increase our market share and positively impact our margins..

For Q4 of FY '23 revenue from operations is up by 30.8% to almost INR208 crores from INR159 crores, in the same quarter previous year. The decrease in gross margins for the quarter is mainly due to, a temporary foreign exchange impact. This is expected to be phased out, with price corrections begin in Q1 FY '24. EBITDA for the quarter grew by 33.4% Y-o-Y, to INR30.6 crores in Q4 FY '23 and profit after tax for Q4, was INR13.3 crores as compared to INR7.8 crores in Q4 FY '22, which shows a growth of 69.4%, on a Y-o-Y basis.

For the year as a whole, revenue for FY '23 stood at INR788.5 crores with a growth of 36.6% Y-o-Y. EBITDA for FY '23 was INR128.9 crores compared to INR79.7 crores, showing a growth of 61.7% Y-o-Y. Profit after tax for FY '23 was INR60.3 crores with a PAT margin of 7.5% versus 4% last year. Inventory days on 31st March '23 stood at 157 days of sales, gross debt stood at INR8 crores as on 31 March 2023 and cash and cash equivalent stood at INR228.6 crores on 31st March 2023.

Before we go up for the Q&A part of our discussion, allow me to explain a few points. At global level, India is recognized as one of the markets with the highest growth potential for premium and luxury goods. Luxury watch stores now see many opportunities to grow in the Indian market,

since retail expansion is happening, not just in metro cities but also in Tier 2, Tier 3 and even Tier 4 cities. In addition, we are witnessing a sustained rise in the interest of the younger population between 25 and 40 years of age, in mechanical watches. This is supported by the growing interest in the second hand market and the shifting habits, when it comes to buying and selling, pre-owned or second hand luxury goods.

The pre-owned market for luxury goods has several significant benefits for consumers, including affordability and collectability, which are gaining popularity among the new and primarily, the young generation. To conclude, the Indian watch market is extremely fast growing and we are confident in expanding and exploring this market.

Let me give you a brief update on our performance. We now have 56 stores and have expanded our footprint to 22 cities. We recently entered Surat and Bhubaneshwar and will shortly, be launching our store at Raipur as well. As we mentioned in our last earnings call, we are on track to open 40 locations, during the next two years.

Here are some updates on the exclusive brand tie-ups. Many well-known brands throughout the world see the great growth potential in the Indian market and are looking to expand. As a pan-India with two decades of expertise, inside knowledge about the ground reality of the business, a database of customers, brands are very comfortable in collaborating with us at Ethos. This eventually helps them to set up their presence, in a short time and with a faster scale-up. We are discussing exclusive partnerships with several brands and will announce these as and when they are finalized.

As you may know, we are relatively new in the jewelry market. As such, we believe that the broad expertise, we have gained from the watch industry will help us to develop an effective strategy for jewelry markets. We believe, this segment will deliver favorable outcomes in the coming years and will be a source of growth.

Additionally, the fit-out of the Rimowa store our maiden attempt in the luxury luggage and travel wear market, is now in progress. We hope to open that shortly in Mumbai, when the mall Jio World Plaza opens. In FY '23, the revenue from the pre-owned watch segment, which is called the second movement, was about INR50 crores, up 61% from FY '22, on year-on-year basis. We expect this segment to grow similarly or better in FY '24.

We will continue to build on the foundations of FY '23, in the current year. Store expansions and sales growth will continue to remain the focus, but we will keep an equally sharp eye on profit growth and profitability. We remain supremely confident in the growth prospects for FY '24 and hope to achieve revenue growth between 25% and 30%, for the year.

With this, I would like to open the Q&A session. Thank you.

Moderator:

Thank you very much. We have our first question from the line of Jeetu Punjabi from Em Capital Advisors. Please go ahead.

Jeetu Punjabi: Hi, morning, Yashovardhan ji and Pranav. Good numbers. I had two broad questions. One was within the watch's growth, that happened. Was the growth in the market's top end faster or in the middle and low end? And were our supply issues around that resolved at the top end of the market, which has been talking to the industry for a while?

Yashovardhan Saboo: Hi, Jeetu. I have to connect. If you have any other questions, why don't you add them now so that we can answer them all together?

Jeetu Punjabi: The second one is around the jewelry foray. I'd love to get some understanding of, what you all are thinking. What's the plan and how do you take that forward?

Yashovardhan Saboo: Sure. So on the watches growth, Jeetu, we have seen growth pretty much across all segments. Similar growth across all segments. But our ASP has continued to grow. So even in quarter four, we see a growth in our ASP pretty much along expected lines. But I'm glad to report that, the growth has been pretty much across all price segments. Unlike two years ago, where we saw very rapid growth only in the very high price segments, today it's happening across all segments. And you know already that, we have pretty much exited the fashion watch segment, which is below INR25,000, INR30,000, INR40,000. But above that, growth is happening pretty much across the board.

And your second question was regarding the supply side. Globally supply side constraints seem to be easing a bit. But you know it, you understand the watch industry very well. It's impossible to say that, supplies are completely normal. There are still constraints for many, and it's not only one or two brands across several brands, especially for the variants or models, that are collectible and high in demand, there is a constraint still.

As far as jewelry is concerned, we are still learning the ropes. We recognize that, in the international branded segment of jewelry, there's a lot of work to be done from our end to learn the business. However, we are seeing traction there and the Messika, the brand that, we have started with, It's starting to get sales and we will be expanding a couple of points of sale. But as I had mentioned in our earlier calls, this is a learning phase, and the real impact of the jewelry business will be felt, maybe two years or three years from now, when we've got the learning in.

On the other hand, where we are closer to, let's say, on the runway, is the luxury luggage travelware business, travelgear business. The first boutique of Rimowa is expected to start this year, when the Jio Plaza mall opens. The repair center of Rimowa, the first and only one in India, has already started by us. And we are already getting immense inquiries for the luggage. So I'm very sure that when the store starts, it will ' take off like a cracker. It's going to be a cracker of a start and we hope we will be able to plan a rapid expansion of this segment soon.

I just wanted to make an additional comment on the supply side. While I said that, supplies are constrained, I believe that, India as a market is now much more in focus of all the international, & Swiss luxury brands. And we believe that, in the months and years to come, we will get the due importance, which essentially means, an allocation of hard to find pieces. So that is one

good thing that we expect to happen out of the growth and the macroeconomic prospects, in India as compared to other countries.

Jeetu Punjabi: Okay, fantastic. Great to hear that. There will be a one quick follow up. So is there, your endeavor to tie up with new marque brands? Is that shaping up well? Is there anything new happening over there?

Yashovardhan Saboo: Jeetu, there's always something new happening. As you know, it takes a long time to finalise, tying up with international global brands, especially in the premium luxury watch segment or in the specialized watch-maker. There is an extended period of getting to know each other. We need to know, whether the brands are serious about India. What is their product? Are they suitable for India? And the brands need to know, their comfort level with Ethos, as a partner.

We've announced several tie ups already in the last six months. And of course, there are several others in the pipeline. I hope, we will be able to announce a few more in this year. And of course, you will hear of them as soon as they are finalized. But there are more in the pipeline for sure.

Jeetu Punjabi: Super, Thank you Yashovardhan ji. Good luck. Good wishes. Thank you.

Yashovardhan Saboo: Thanks Jeetu. Thank you.

Moderator: Thank you. We have our next question from the line of Devanshu Bansal from Emkay Global Financial. Please go ahead.

Devanshu Bansal: Hi,. Good morning, sir. Thanks for the opportunity and congrats for a very strong growth in Q4. So I have two questions, three questions. One, I wanted to understand the impact of the significant depreciation in INR vis a vis CHF. This is the question is on two counts. Obviously, with this significant depreciation of INR, the watch prices may have shot significantly. So does that sort of impact consumer sentiment, number one?

Second is for FY '23 as well, this depreciation was there. So was there a component of low cost inventory gains that, we witnessed in our margins? So that's the question on INR depreciation. Secondly, I wanted to understand on the margins front. EBITDA margins shot up into significantly in FY '23? Supported by a very strong growth that, we've seen. For FY '24 as well, growth expectations are reasonably strong. So how should we see the margin trajectory for FY '24, whether we should be in on an improving trajectory or the strong store additions that, we expect, should keep the margins more or less stable? So these are the two questions there.

Yashovardhan Saboo: Right. Thanks, Devanshu. Very important question. So the INR depreciation, this is not something new. As you mentioned yourself, it's a phenomena that, over the long term, in the last 40 years, it has happened. It doesn't happen at a steady pace. Sometimes, there is a spurt of depreciation, a steady pace, and so on. And because of this, what happens is that, the correction of the price in Indian rupees of the brands, that is, it always happens with a time lag. What's important to understand is that, brands need to be sure and convinced that, the Rupee has found a stable level at a certain foreign exchange rate, before they adjust the Indian INR MRP.

So they want to make sure that, it is not a short-term variation and it's not going to change too much. And at that point, they make a correction and that correction does not happen, every two or three months. It happens once or twice a year. Of course, it has happened more often also, where there's been a sharp correction or a sharp depreciation. But usually it's, let's say, one times to two times a year.

So as you know, in the last year, there has been a pretty significant depreciation of the Indian Rupee and many brands have still to correct the prices in Indian MRP. And until that happens, it has an impact on the gross margin and overall margin. And that's one reason, why there has been a slight dip in the margin, as I explained in my talk as well.

The second part of the question is also interesting: when domestic prices rise, is there any impact on consumer sentiment? Not really. Because it's in line with overall inflation in India most consumers now, compare prices in India with global prices of similar watches. And these prices, of course, are available on the net.

So they find that, the rate in the foreign exchange rate, actually India continues to be one of the most competitive markets in the world and the prices are comparable to the best shopping destination. So I don't think we have not seen any evidence that, it impacts consumer sentiment or buying. It may be for a very short while of a few weeks, but then customers realize that, this is the market price, this is the level, this is the global level and there is no sustained impact at all.

Third point was, whether there were any gains due to price increases on the existing inventory. Indirectly, yes, there is. Even though the MRP is realized, the Indian rules require us to respect the MRP, at the time of the purchase, unless the brands approve a revision of the MRP, even for the old stock. So they have different brands of different policies. We, of course, follow the law and whatever are the brand policies.

But in some cases, where there is inventory, which has gone through one price increase, it does allow us to get a slightly better margin on that. So there is a slight impact in improvement in margin, due to the old stock that is at older inventory because usually, we can offer a slightly lower discount, while still keeping the overall price very-very competitive.

So that's on the, as far as the INR depreciation issues are concerned. As far as EBITDA margins are concerned, we expect, let me start by saying that, our gross margins are at a stable level and our effort is going to be, to maintain these. I have said this earlier as well, our gross margins are actually at levels ahead of, what we had projected. So we are very happy with the gross margins. This is comparable to gross margins in the luxury watch business worldwide. And so this is great for us.

EBITDA margins, we expect over time, EBITDA margins to continue to increase as operating leverage keeps kicking in. This year, I don't think, there will be a great impact of new stores. We are confident that, our new stores start to become profitable quite soon. And in fact, we expect them to generate a very standard ROCE within the first month itself. On that side, if there is,

there could be a slight impact on a quarter by quarter basis. But on the whole year, we expect EBITDA margins to stay stable or even increase a bit.

Devanshu Bansal: Got it, sir. Thank you. Thank you for the elaborate explanation. I'll get back to your post follow-ups. Thank you.

Moderator: Thank you. We have our next question from the line of Ankush Agrawal from Surge Capital. Please go ahead.

Ankush Agrawal: Hi. My first question is, can you give me the SSG number and the contribution of exclusive brands for both Q4 and FY '23?

Yashovardhan Saboo: Sorry, can you repeat that question, Ankush?

Ankush Agrawal: I just wanted SSG numbers and share of exclusive brands, in the overall number of Q4 and FY '23, as a whole. That was the first question. And secondly, again, talking on the margins. So this year, the store expansion that we are targeting is quite strong. And given that, we are assuming that, gross margins should be stable. So where do you expect this, operating leverage to kick in from? Like, if you can highlight, which are the cost areas, where you expect that in the long run, we'll see operating leverage to play out? That all are the questions.

Yashovardhan Saboo: The share of exclusive brands in our business for the year was about 27%. Ritesh, will you correct me, if I have the right figure here?

Ritesh Agrawal: Sir, you are right.

Yashovardhan Saboo: 27%. Okay. Second part regarding operating leverage, Ankush. So operating leverage essentially kicks in from many things, especially corporate overheads. So they will not increase proportionately to the stores. And that's, an important point, where operating leverage does kick in from.

Ankush Agrawal: Okay. And SSG numbers?

Yashovardhan Saboo: SSG numbers, for the year, for the last year, the SSG was 30%. So which is extremely strong. Our overall target, our steady target for, the next three to four years is an SSG target between 12% and 15%. So last year, of course, was completely an outlier. But 12% to 15% SSG growth is our target, a long-term target.

Ankush Agrawal: Sir, just one clarification. So you said the operating leverage is largely kicking in from the corporate overheads. So would you be able to quantify what kind of amount the corporate overheads are running at the moment?

Yashovardhan Saboo: I may not be able to quantify that right away, Ankush. But I would invite you to connect with Ritesh, our CFO, and go through whatever numbers we can share in this regard. One other point also, it's not only corporate overheads, right? In the established stores as well, the margin improves as growth happens. Simply with an SSG of 15%, 16%, costs don't go up in that ratio.

So the profitability and the generation of profits and cash in existing stores also aids the overall improvement of EBITDA margins.

Ankush Agrawal: That's all. Thank you.

Moderator: Thank you. We have our next question from the line of Vikas Mistry from Moonshot Ventures. Please go ahead.

Vikas Mistry: Hello, thank you for giving me the opportunity. Sir, my question is on Rimowa's economics and jewellery brands' economics. Economics of watches is very well known that we have good ROC on that and they're spending well and our SSG is also good. Can you explain on Rimowa site and Messika site?

Yashovardhan Saboo: So, Vikas, Rimowa, we have not yet started trading. It's important to say that we've been talking about it. Unfortunately, the launch of the first peak has been delayed as the mall where it is located will be India's most famous luxury mall. It's in Bombay and probably everybody in the luxury business in the world has heard about it, the Reliance, JIO Plaza mall. It's slated to open in the middle of this year and that's when trading of Rimowa will start. And the margins, we expect the margins to be quite similar to the watch business. In the jewelry business, the watches are quite similar to the watch business.

Vikas Mistry: Okay. My second question is that we are having hands full with the luggage side of the business. Are you also targeting some other categories like women handbags, luxury women handbags and all that?

Yashovardhan Saboo: Vikas, we are not long term, of course, given the expertise and experience that we have in the luxury business, I think we are open to ideas in the future for other segments. But at the same time, we are conscious, very conscious of the fact that at the moment, the watch industry has an immense potential for growth. We need to devote our full energies to maintaining and growing our leadership in this segment. And of course, that will continue to be our focus for at least the next couple of years.

The luggage and travel gear business in the luxury segment is also interesting because it has close relationships and jewelry even more. So I think these are segments that we need to start to realize the potential. And once we are there, then of course, there are other segments that we will address ourselves to. We must recognize that India is still very early in the whole journey of the premium and luxury consumer segment.

So there are decades of strong growth ahead and we must be careful to focus on segments where we see the most solid presence while maintaining growth, solid profitability and performance. We are extremely focused on what we do, but we do recognize that there will be other segments we can go into in the future.

Vikas Mistry: That's all. So thanks a lot and congratulations on good numbers and you keep doing a pivoting to new areas and keep growing like that. Thanks a lot.

- Yashovardhan Saboo:** Thank you.
- Moderator:** Thank you. We have our next question from the line of Deven Sangoi from Abakkus AMC. Please go ahead.
- Yashovardhan Saboo:** Hello Deven.
- Moderator:** Mr. Sangoi, please unmute your lines, sir. Since there is no response, we'll move on to the next question from the line of Bhavya Sonawala from Samaasa Capital. Please go ahead.
- Bhavya Sonawala:** Thank you, sir. Thank you for the opportunity. Just have two questions. First one is just want to know going forward what kind of locations or cities are we targeting to open new stores? What will be the trend? And my second question is just want to understand what kind of growth can we see from new brands in the luxury segment? I want to understand is there a bunch of brands that we haven't tied up, which can lead to growth in the future? Just these two questions. Thank you.
- Yashovardhan Saboo:** Bhavya, on locations, I think we've already put up, we've already opened several new cities. The focus is equally on new cities, tier 3 cities, as well as new geographies in existing cities. So, for example, we've opened Indore, reopened Bhopal in the last six months, let's say. Siliguri, Bhubaneshwar has been recently opened, Raipur will soon be opened, and Surat has been opened very recently. So, these are the kind of new cities we are going to.
- At the same time, there are also new geographies in some of the existing cities that we are going to. For example, in Bangalore, there is a fabulous new mall which will open later this year. It's in the area of Hebbal, fast-going area on the way to the airport. So, we have taken multiple locations there. Similarly, in Ahmedabad, we opened at the new Palladium mall. So, it's a mix of locations, new cities, and new geographies in existing cities. I hope that answers your questions.
- As far as brands are concerned, yes, we are in touch with new brands and brands of course, they add to the same. For example, among the brands that we opened in the last year was Jacob & Company. Before that, a little before that, Bovet a high luxury brands. We also opened something in the mid-price segment like Bell & Ross.
- All these brands are not only doing very well, but we can see that the growth and interest of these brands, not only in a few cities, but also in tier 2 cities, is emerging. So, we are extremely optimistic and bullish about the prospects of the new brands we are signing to help increase our growth and maintain profitability.
- Bhavya Sonawala:** Okay, thank you so much.
- Yashovardhan Saboo:** Thank you, Bhavya.
- Moderator:** Thank you. We have our next question from the line of Vinayak Mohta from Stallion Asset. Please go ahead.

Vinayak Mohta:

Good morning. So, sir, congrats on a great set of numbers. I just had two-three questions. The first one was, on the gross margins part, is it fair to assume that this stable state on a yearly basis will be around 30%-31% and given that you've been tying up with more exclusive brands going forward, where your margins are relatively high on the trajectory, over a three years-to-five-years perspective should be on the upper side, on the gross margins front?

The second thing is, there's been a lot of talks going around how the Swiss watch demand might be slowing down in the recent past? Have you seen any similar trends in India coming over the same? And the third question is the pre-owned watches segment has still, kind of not being able to achieve the target that you were targeting. Is it a factor of supply not being enough or is it a factor of constraint from the brands for the past that you look for, which was in Q3 as well?

Is that continuing and that is having a bearing? And what gives you the confidence that the growth will stand out in FY '24? And are you seeing similar headwinds on the supply side from the original watches as well, like the new ones?

Yashovardhan Saboo:

Okay, great set of questions Vinayak, let me answer them as effectively as I can. You're right, gross margin, 30% to 31% is a good level. This is comparable to international, other large retailers of luxury watches. So we are happy with this number. Is this likely, could this go up in the years to come? Yes, it could. But we are also conscious of the fact that these are the numbers in India, globally. This is a margin and we are projecting that we will stay within this range. But of course, there is a possibility that they could inch up a bit in years to come.

As far as the demand for the pre-owned watches or second-hand watches is concerned, actually, we are pretty happy with the numbers and we had a growth of more than 60% in the last year. We expect a similar or better growth this year. You asked, what is the constraint? The constraint is not either in the demand or the supply. It's important to understand how this market works and how Ethos approaches this market. It's extremely important that we examine every watch, every pre-owned watch before we buy it or we offer it for sale on the second movement website, which is powered by Ethos. And many of times, this requires very detailed knowledge about the watch to open it and to refurbish it so that it comes to almost new levels of performance. It has the same performance levels as a new watch and appears to be almost like a new one.

Now, this refurbishment and this testing of the watch requires the expertise of watchmakers who understand these watches, mechanical watchmakers, which are not easy to find in India. India has, lost the tradition of mechanical watches after HMT died 50 years ago or 40 years ago. So, therefore, the constraint is to find enough watchmakers. We are in the process of recruiting whomever we can find. We have a very strong training program. We depute the watchmakers abroad to get specialized training from the brands.

But this is the process that takes time and that is the only real constraint. We've set up extremely good refurbishing and servicing facilities equal to the best of the world with the best equipment and everything. And you are welcome once to, when you are in Gurgaon, to look at that. And we expect this growth to continue.

Globally too, I have to say that the pre-owned watch market is growing very fast and it is predicted to become 50% the size of the original watch market within the next couple of years. It is already 25%. So it's growing much faster than the original watch market. And similarly, we are very bullish about it in India as well.

Vinayak Mohta: I understood. Just one small question. On the news told, that you've opened lately in Q3, you have said that within the first month, they will be coming profitable. Are you seeing similar trends continuing and improving on as we go forward, given you've opened five stores to six new stores now in the near past? So how is that trajectory following through?

Yashovardhan Saboo: Different stores behave differently. So it's hard to-- different geographies behave differently. So it's hard to set up once at all, particularly on a month-wise basis. It depends on which month the store opens. For example, if a store opens in the month of November, just before Diwali or in the wedding season, of course, it's going to boom from the first quarter onwards. If it opens in a lean period like March or April, it may take one month or two months or three months before it starts to. So a lot depends on that.

I don't think we are, monitoring that the store must become profitable from the first month onwards. A lot depends on where the store is open. For example, the mall. The mall may take some time to get traction. So we have seen some stores where malls are taking time, they also take time. There are some stores which do very well from the first month onwards. So it's a mixed bag. I don't want to make predictions for one month and one quarter. I can say with a lot of confidence that our stores not only start to break even but become profitable within the first year itself. And that's the target that we are seeing. That's the target we have and that we are confident of achieving.

Vinayak Mohta: Great. Thank you so much and all the best.

Moderator: Thank you. Ladies and gentlemen, to ask a question, please press star and one on your phone. We have our next question from the line of Varship Shah from Envision Capital. Please go ahead.

Varship Shah: Yes, sir. Thank you for taking my question. For the pre-owned segment, do we also need authorization from brands to buy and service them? Or can we buy and service any luxury brand for the second movement and all this? also, could you give me the number for service revenues in FY '23 and how is that segment of the business growing?

Yashovardhan Saboo: Right. So your question is on service and whether we need permissions from brands in the pre-owned segment. So strictly speaking, we don't need permissions for brands to trade in the pre-owned segment. Anybody can do that. However we have relationships with brands and believe that relationships are the most important. One of the most important factors in our business, whether it's relationship with brands, customers, or stakeholders. And therefore, for good firm sake, do believe that it's very-very important that our brands know that we want to trade in the pre-owned watches. And if a brand has hesitation on it, we don't do it because we never want to lose the confidence of our brand partners.

Secondly, it's not only a question of permission from the brands. We must have the ability; therefore, it's only the brands we have the technical ability to work with. And we have a source of supply of spare parts when they're needed that we go in for trading of the pre-owned watches. So it's not only a question of whether we are allowed to do that, but also our watchmakers should be trained and competent to open and refurbish the watches.

As far as service revenue is concerned, the service revenue is different from pre-owned business. These are two separate businesses. And service as such is really, it's not focused on right now as a profit center. However, that is the goal that we will structure the service business as a profit center. I believe the service revenues were somewhere in the range of INR6 crores to INR7 crores in the last year.

Varship Shah: Alright. Thank you for answering my question.

Moderator: Thank you. We have our next question from the line of Rahul Agarwal from Incred Capital. Please go ahead.

Rahul Agarwal: Hi. Good morning. Thank you so much for the opportunity. So gross margins are essentially down only due to adverse currency in fourth quarter. And whenever the price revision happens, whenever the brands want to do it, the gross margins tend back to 30%-31%. Is that understanding correct?

Yashovardhan Saboo: Yes, broadly correct, Rahul.

Rahul Agarwal: Yes, that's the first question. Secondly, I've seen some investments in Rimowa acquisitions, as you want to call it, of Swiss headquarter companies or brands. The investments are small, but I was not very clear on the purpose. If you could clarify that. That was the second question.

Thirdly the CPO, you said INR50 crores of sales. Is that billing or is it net of GST? It's just a clarification. And fourthly, just as an understanding again, we added INR200 crores of sales last year fiscal '23 over fiscal '22 and inventory addition is INR100 crores. So it's broadly six months, which is higher than what you obviously aspire for and what is reported on a year-end basis. I would imagine that it happened purely because of some bunching up and new store opening which happened end of 31st March. If you would clarify that, that will be helpful? Thank you so much.

Yashovardhan Saboo: Thanks, Rahul. So the last point is easy. It happens because of not only of bunching up some new store opening, but also it happens when you sign on a new brand. When you sign on a new brand, I think almost invariably, you have to start with a certain number of doors. So it bunches up a lot of the buy-in at that time. And then there's a lag between that buy-in and the sell-out. So it's not only a question of new store, but it's also a question of signing up new brands. That was your last question.

As far as the gross margin, we already addressed that. The investment that you're talking about, we've made one investment of CHF1,25,000, which is about less than a crore, I think, of rupees

in a brand called Haute-Rive. Haute-Rive is a new, it's a revived brand by a very-very talented watchmaker. We've been in dialogue with the watchmaker since a long time. He's been wanting to create this brand. He has extremely high specialized experience and his ideas for creating watches are superb. We know the kind of products. They are in the very high specialized segment, very high price points, but extremely specialized, very-very collectible watches, which should be available to us sometime in about 12 months to 18 months.

But it's not only a question of having a few watches. Investing in such brands allows us to get strategic information about how the very high-end watchmakers work. What is their network of suppliers? What is their network of influencers? What are the trends in the very high watchmaking segment? Who are the people? What are the other connections and networks? This was an area that we were completely outside -- we get the inside information and we believe this is an extremely important strategic direction. And we will see the benefits of these in the years to come. This is the first investment and we do believe that if we have other similar opportunities, we would like to evaluate them very constructively.

As far as CPO is concerned, I think INR50 crores is the billing. It's a growth of about 60% plus over the previous year. Ritesh, if I'm wrong, somewhere you can correct me on this. And the last question I've already answered.

Ritesh Agarwal: Sir, INR52.5 crores billing and INR50.4 crores is the revenue.

Yashovardhan Saboo: INR50.4 crores is the revenue.

Rahul Agarwal: Okay. Got it Just a follow-up on those smaller investments. It's strategic. Is the Silvercity one is what you spoke about or is it that different?

Yashovardhan Saboo: Silver City is a company that has been formed with a view to further investments in other brands. Typically, Haute-Rive investment would also have been done through Silvercity. But because the Haute-Rive opportunity came up before Silvercity was formed, we've invested that directly. But the idea is to have a foreign subsidiary not only to invest in other brands, but also for other activities that might be better served by having a Swiss presence. That's the idea. But mainly it is to invest in watch brands here.

Rahul Agarwal: Okay. And just sorry for this, but just a clarification again. So we are not intending to have our own brands competing with luxury brands. This is purely to network, understand more on how the high-end market works and continue to be a retailer in India or outside. Is that correct?

Yashovardhan Saboo: We will continue to be retailers. The question of whether we will have our own brand or not has been asked. I've been asked this question for the last 30 years in KDDL and 20 years in Ethos. The fact is that the large retailers everywhere in the world do have brands over which they either have strong influence on or they own. Examples are several. Bucherer has Carl F. Bucherer. Wempe has its own brand, Wempe watches of Switzerland similarly, has done strategic investments in various brands. We certainly don't want to rule out the possibility of having brands on which we have significant influence in the future.

- Rahul Agarwal:** Got it. That clarifies. Thank you so much. All the best.
- Yashovardhan Saboo:** Thank you.
- Moderator:** Thank you. We have a next question from the line of Lakshminarayanan from Tunga. Please go ahead.
- Lakshminarayanan:** Thanks for my question. I have two questions. First is that how much of your sales come from repeat customers? Because you mentioned in the presentation that around 40%. So does it mean that 40% is repeat customers or it's like part of in the loyal customers around 40% coming? I didn't get that part.
- Yashovardhan Saboo:** I think Ritesh, can you give the exact figure of repeat sales, please?
- Ritesh Agarwal:** It's 46%.
- Lakshminarayanan:** Got it. 46% probably. And in terms of the sales coming from new and existing brands, so how much gets contributed by your new tie-ups and new brands and how much is from your existing brands that you have been only doing for the last more than three years, four years? Do you take a cut like that and see?
- Yashovardhan Saboo:** No. We don't take a cut. We don't have a formal definition as to when a brand is a new brand and when it stops being a new brand and becomes an old brand. I think even if an old brand goes to a new city, that city it is a new brand. Of course, we don't define it as such, but we cannot give you that number readily, Mr. Lakshminarayanan. We don't divide the sales into new brands and old brands.
- Lakshminarayanan:** Okay. And typically, how many brands you add every year? You have around 60 brands, right? You mentioned that around 37 are exclusive. Now, how many brands you add on an annual basis? In-general How is the traction has been? And what do you use to, add a brand?
- Yashovardhan Saboo:** So, we don't have a target that, we will add so many new brands in a year. The idea is to have a, we try to divide the market in various segments, the market in various ways, price point wise, product wise and basically price point wise. In each segment, we would like to have a healthy selection of brands and exclusive brands. So, for example, we do want have brands, which are more preferred by, with products, which ladies, watch-maker, technical products, sports watches, classic watches more prefer.
- So, these are various, within which products are segmented. And then, there are various, of course, there is the price point segmentation. Therefore, our goal is not to have so many brands every year. But to ensure that, each of the segments has a good selection of exclusive as well as non-exclusive brands. And that's what determines, whether we go for a brand or not.
- When we are talking to new brands, the other thing we determine is their interest in India and their understanding of the Indian market, the availability of products. There's no point tying up with a brand that, doesn't either believe in the Indian market or is not able to, give us enough

products. Because if you get only a few products, it's not worth the time spent on that. So, a lot of consideration goes into that, as well. So, it's a complex thing, that happens.

And usually, it's a result of several, certainly more than one year of dialogue with the brands. Then, we encourage them to visit India, to understand the Indian market, to understand Ethos, to understand our Indian customer. And what it means, to be able to succeed with a brand. Of course, what is happening is that, most brands now realize that, India is the next big market. The growth in China happened over the last 20 years and India is going to be the next big market. So, I feel, we get a pretty positive response from most of the brands that, we talk to.

Moderator: Thank you. We request you to come back in the queue for follow-up questions. We have a next question from the line of Manish Poddar from Motilal Oswal AMC. Please go ahead.

Manish Poddar: Yes. Thanks for doing the call. So, I have three actually. First one is, can you help me understand, how much of the absolute price increase taking the brands for FY '23 as a whole? That's a ballpark.

Yashovardhan Saboo: Our FY '23, it varies from brand to brand, but, it's somewhere in the range of 6% to 9%.

Manish Poddar: Because it is 6% to 9% and in the slide, you have shown that, about 7% is the average selling price, which is increased on an annual basis. So, are you trying to ensure that, the mix is largely similar?

Yashovardhan Saboo: Well, it's not that, suddenly all the price, first of all, it's not that the price increase happened in the beginning of the year. Most of the price increase happened in the FY fourth quarter of the year. And a lot of it, and even if the price increase happens, it's only for the new products, It's only for the new imports. For what is already on stock, the MRP stays the same.

Manish Poddar: Okay, so effectively, if I have to understand it, roughly 2% to 3% is what, this pricing would be? Would that.

Yashovardhan Saboo: Probably. Yes, that might be a reasonable estimate. We haven't done a real calculation on that, but yes, it seems to be a reasonable estimate.

Manish Poddar: Second question. So let's say, this margin increase you've said due to the inventory gain, can you just quantify that number?

Yashovardhan Saboo: That's difficult because, it depends a lot of it. Difficult to quantify, what is the gain due to post-inventory. It depends, what is the ageing of the inventory that we sell, what is the eventual consumer discount...

Manish Poddar: This is mark to market. I'm just trying to understand. This is mark to market, right? This is accounting. So I'm just trying to understand? Your having the absolute number.

Yashovardhan Saboo: I don't have. Look I am not a. I don't understand how this is mark to market. Our goods are valued at cost and MRP is based on, the MRP declared by the brand at the time of import. So on the inventory, there is no mark to market.

Manish Poddar: No, what I'm trying to understand is, you have a X rupees and now it is Y rupees. This X and Y are actual numbers. So I understand, it's not realized. It's most of, at this point.

Yashovardhan Saboo: No, Manish, you are, this is a detailed question and maybe we should, sorry, let me take it offline. But please understand that, if a watch has an MRP of INR1,00,000, at the time, we have bought it, even if new purchases of that watch happens, when the MRP is INR1,10,000, on that particular one, the MRP stays INR1,00,000.

Manish Poddar: I'll take that offline. No worries. Thank you so much.

Moderator: Thank you. We have our next question from the line of Devanshu Bansal from Emkay Global. Please go ahead.

Devanshu Bansal: Yes, sir. Hi. Thanks for the follow up opportunity. I just wanted to check in, some of the new cities, we are entering again, after an exit. So just wanted to check, what has changed between then and now and what are the key learnings that, we are applying now, in these stores?

Yashovardhan Saboo: So Devanshu, the city has changed and Ethos has changed. So, you're referring to, mainly you're referring to Bhopal.

Devanshu Bansal: Yes.

Yashovardhan Saboo: And Bhopal was the city, where our earlier store was a very small store. It was a 380 or 400 square foot store. We had the lower end of the brands over there and we were not, it was not a surprise that, the store was not very profitable. So we closed it down with, and this was, several, several years ago. Now with our portfolio of brands that we have, the city has changed. The mall, in the same mall, we've opened a larger store and it is doing fabulously.

So, the portfolio of brands that we offer, the kind of store, we've already told you that, two years or three years ago, we decided that, these 400 square foot multi-brand stores don't work. For a multi-brand store to work, it has to be minimum 800 square feet to 1,000 square feet. Our Bhopal store is that size. So the presence and the portfolio of brands and of course, the conviction of the team that is selling these brands, everything has changed.

Devanshu Bansal: Got it. And anything about Surat, I guess 4,000 square feet is a store, where we don't have, such a store in our portfolio as of now and this has been a very big store that, we have opened. So just your take on, what are the key expectations from the revenue margins, ROCE, from such kind of stores?

Yashovardhan Saboo: Our ROCE margins, our expectations don't change. We believe that, it will have comparable ROCEs. We are happy to experiment with large stores in these cities, flagship stores. We've seen the great success in Calcutta, in Hyderabad. These are places, where large stores were not possible in malls because malls didn't exist, for such large stores. And we have seen the presence of large stores, crystallizes the buyer behavior and gets buyers to buy, customers to buy more frequently, more readily and get interested in the segment more often.

That buying will shift from an intention, to buy faster and it will shift from an intention to buy in Mumbai, to make to an intention, to buy in Surat. We saw that happening in Chandigarh, when we opened our first store there 20 years ago. It is happening as, we speak in Calcutta. It is happening in Hyderabad. So Surat, I'm sure it will happen and Raipur will be a similar experience, where we also have a large flagship store, which High Street is coming up.

Devanshu Bansal: Got it sir. Really encouraging.

Yashovardhan Saboo: Thank you.

Moderator: Thank you. We have a next question from the line of Harshil Shethia from Aum fund advisors LLP. Please go ahead.

Harshil Shethia: Hello. Sir, I had this question. So on the second movement business, so do we accept all watches, if they are good in quality? Or do we buy it on our own books before selling off?

Yashovardhan Saboo: Okay. Are there any other questions?

Harshil Shethia: No.

Yashovardhan Saboo: So, several things go into a decision on, whether to buy and what to buy and so on. One is of course the quality of the watch, the sale ability of the watch. What is the price that, the seller wants? Is it a realistic price? Will it allow us to make our target margin? Even if it's in good condition, it has to be refurbished. Do we have the capability, to refurbish it? Sometimes, we open it and find out that it needs a spare part, which is not easy to find. So, all of this goes into.

Third important is that, we need to know, that it's not a smuggled watch. It's a legitimately purchased watch. So we ask for documents for that. Now, if once all of that is clear, it's a question whether we buy or put it, on our website. If we are convinced that, it's an easily saleable watch, our experts are convinced about that and we reach a price agreement with the seller, then we buy the watch. Sometimes we can't reach a price agreement and our traders in Ethos, are not very confident that, we can sell the watch, at the price the seller wants.

In which case, we do not buy the watch, but we come to an agreement with the potential seller. Look, we will put it on our website and we'll try it, for a period of three months to six months. If it sells, that's fine. We will keep our margin and give you the money. If it doesn't sell, we'll return the watch to you and the only thing you will need to pay are the refurbishment charges. So there are different models that are working and essentially, these are the reasons.

Harshil Shethia: Okay, understood. Thank you, sir.

Yashovardhan Saboo: Thank you.

Moderator: We have our next question from the line of Pankaj, an Individual investor. Please go ahead.

Pankaj: Yes. But my question has been answered. Thank you.

Moderator: Thank you.

Yashovardhan Saboo: Thanks. Pankaj.

Moderator: Thank you. As there are no further questions, I would like to hand the conference over to management for closing comments. Over to you, sir.

Yashovardhan Saboo: Thank you, everybody. I hope, we have been able to answer all your questions satisfactorily. I think, there were one or two that might need some offline interactions. Please feel free to reach out to us and to our CFO, for those. Please contact our team or SGA our Investor Relations Advisors for this. Thank you once again for taking the time to join us on the call.

Moderator: Thank you, sir. On behalf of Ethos Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.